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FINANCIAL STATEMENTS FOR REPORT TO STOCKHOLDERS

THE NATIONAL TOOL COMPANY - CLEVELAND, OHIO

December 31, 1937

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To the Stockholders of
The National Tool Company

Submitted herewith are financial statements of your Company, consisting of balance sheet at December 31, 1937, summary of surplus for the five months ended December 31, 1937 and summary of operating results of the present Company and its predecessor Company and its Subsidiary for five months and seven months of the year respectively. These statements have been audited by Messrs. Ernst & Ernst.

The combined operating results of the Company and its predecessors for the year 1937 resulted in a net profit of \$46,886.84, which compares with a consolidated net loss of \$8,375.28 of the predecessor company and its Subsidiary for the preceding year. The betterment in profit reflects the continued efforts to improve manufacturing facilities and personnel in spite of the fact that all wages and material in 1937 increased in cost perceptibly over 1936. Prices of our finished product did not reflect proportionate increases.

Our Engineering and Manufacturing Departments have been constantly engaged in developing new and better methods of making our products, with the result that we are at present in a position to successfully meet the more exacting requirements of our customers for precision tools.

There are many stockholders who have not, as yet, sent in to the Company's offices their old stock for exchange for the new stock issued under the plan of reorganization, which became effective during the year. Those of you who have not done so are urged to exchange this stock at your earliest convenience.

The Board of Directors and the management take this opportunity to express their appreciation and thanks to the officers for their faithful and efficient service during the past year.

By order of the Board of Directors.

A. J. Brandt,

President

SURPLUS
THE NATIONAL TOOL COMPANY
December 31, 1937

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CAPITAL SURPLUS

Additions:

Original credit resulting from acquisition
as at August 1, 1937, of net assets of
predecessor company-represented by:

Net assets January 1, 1937 (capital
stock less deficit) \$124,591.68

Net profit for the seven months ended
July 31, 1937 51,560.35

Adjustment resulting from acquisition
of the remaining 25% interest in the
outstanding capital stock of The
Simmons Method Hob Company at
March 31, 1937

419.75
\$176,571.78

Less:

Provision for reserve for
contingencies \$ 4,500.00

Provision to reduce inventory
at January 1, 1937, to
estimated cost

3,800.00 8,300.00

NET ASSETS ACQUIRED AUGUST 1, 1937 \$168,271.78

Par value of 60,440 shares of capital
stock of present company issued or
issuable to stockholders of
predecessor company

60,440.00 \$107,831.78

Premium on 25,000 shares of capital stock
sold to underwriters-pursuant to commitment
in the underwriting contract

25,000.00

Premium on 36,600 shares of capital stock sold
to underwriters under option dated July 19, 1937

36,600.00

Credit arising from adjustment of plant accounts
and reserves for depreciation at August 1, 1937,
to reflect unrecovered costs at December 31, 1934,
and subsequent depreciation, as allowed by U. S.
Internal Revenue Department

7,203.76
\$176,635.54

Deduction:

Expenses applicable to the organization of the
Company and the issuance of its capital stock

9,843.34

CAPITAL SURPLUS BALANCE DECEMBER 31, 1937

\$166,792.20

EARNED SURPLUS (DEFICIT)

Net loss for the five months
ended December 31, 1937

4,673.51

BALANCE DECEMBER 31, 1937

\$162,118.69
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PROFIT AND LOSS SUMMARY

THE NATIONAL TOOL COMPANY (AND PREDECESSOR COMPANIES)

Year ended December 31, 1937

	THE NATIONAL TOOL COMPANY (INCORPORATED 1916) AND SUBSIDIARY SEVEN MONTHS ENDED JULY 31, 1937	THE NATIONAL TOOL COMPANY (INCORPORATED 1937) FIVE MONTHS ENDED DEC. 31, 1937	COMBINED YEAR ENDED DEC. 31, 1937
Manufacturing profit after deducting cost of goods sold, including material, labor and factory expense but exclusive of provision for depreciation	\$172,696.96	\$ 80,654.41	\$253,351.37
Selling, administrative and general expenses	97,056.50	65,815.00	162,871.50
OPERATING PROFIT BEFORE PROVIDING FOR DEPRECIATION	\$ 75,640.46	\$ 14,839.41	\$ 90,479.87
Provision for depreciation on plant and equipment	10,823.64	9,224.62	20,048.26
OPERATING PROFIT	\$ 64,816.82	\$ 5,614.79	\$ 70,431.61
Add other income:			
Profit on disposal of equipment	3,111.92	470.00	3,581.92
Sundry	1,262.33	126.20	1,388.53
	\$ 69,191.07	\$ 6,210.99	\$ 75,402.06
Less other deductions:			
Interest - See note	\$ 6,590.14	\$ 5,682.29	\$ 12,272.43
Extraordinary repairs	-0-	3,590.28	3,590.28
Amortization of bond discount and expense	-0-	1,276.45	1,276.45
Sundry	40.58	335.48	376.06
	\$ 6,630.72	\$ 10,884.50	\$ 17,515.22
PROFIT OR LOSS BEFORE FEDERAL TAX ON INCOME	\$ 62,560.35 (Red)	\$ 4,673.51	\$ 57,886.84
Provision for estimated normal federal income tax	11,000.00	-0-	11,000.00
NET PROFIT OR LOSS	\$ 51,560.35 (Red)	\$ 4,673.51	\$ 46,886.84

NOTE: Includes \$5,000 Accrued Interest on Convertible 6% Sinking Fund Debentures due August 1st, 1942.

BALANCE SHEET
THE NATIONAL TOOL COMPANY
December 31, 1937

<u>ASSETS</u>			
Current assets:			
Cash		\$ 25,670.74	
Trade note and accounts receivable, less reserve of \$5,388.94		70,062.57	
Inventories-at lower of cost or market		<u>170,673.69</u>	\$266,407.00
Deposits, claims, cash surrender value of life insurance, etc.			5,363.14
Property, plant and equipment-depreciated cost:			
Land		\$ 39,103.98	
Buildings, machinery, equipment, etc.	\$491,579.13		
Less reserve for depreciation	<u>228,594.90</u>	<u>262,984.23</u>	302,088.21
Good will, patents, etc.-nominal amount			1.00
Deferred charges:			
Unamortized bond discount and expense		\$ 14,041.13	
Deferred development and tool expense		9,818.75	
Prepaid insurance, taxes, interest, etc.		<u>5,440.62</u>	29,300.50
			<u>\$603,159.85</u>
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<u>LIABILITIES, CAPITAL STOCK AND SURPLUS</u>			
Current liabilities:			
Notes payable-to bank, \$30,000.00; trade \$6,200.00		\$ 36,200.00	
Accounts payable-trade		39,803.74	
Unpaid pay roll, commissions, federal and state pay roll taxes, etc.		17,521.17	
Accrued interest, taxes, royalties, etc.		9,976.25	
Provision for federal taxes on income-estimated (includes \$4,500.00 for prior year)		<u>15,500.00</u>	\$119,001.16
Convertible 6% sinking fund debentures (with warrants attached) maturing August 1, 1942-authorized and issued			200,000.00
Capital stock and surplus:			
Capital stock-Note A:			
Common-par value \$1.00 a share:			
Authorized 600,000 shares:			
Outstanding	116,956 shs.	\$116,956.00	
Reserved for exchange of preferred and common stock of predecessor company	<u>5,084 shs.</u>	<u>5,084.00</u>	
	<u>122,040 shs.</u>		\$122,040.00
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Surplus:			
Capital surplus	\$166,792.20		
Earned surplus (deficit)	<u>4,673.51</u>	<u>162,118.69</u>	284,158.69
			<u>\$603,159.85</u>
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Note A - In addition to the capital stock set forth as outstanding or reserved in the above statement, the Company has reserved at December 31, 1937, 268,400 shares for the following purposes:

Optioned to underwriters at \$2.00 a share for six months from July 19, 1937. (Option exercised as to 20,000 shares in January 1938. Balance Option Cancelled)	138,400 shs.
Optioned to underwriters under certain conditions at \$2.50 a share to July 19, 1942 (contract as amended September 24, 1937)	40,000 shs.
Reserved for conversion of debentures	80,000 shs.
Reserved for conversion of stock warrants attached to debentures	<u>10,000 shs.</u>
	<u>268,400 shs.</u>
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ERNST & ERNST
Accountants and Auditors
System Service
CLEVELAND

March 31, 1938

The National Tool Company,
Cleveland, Ohio.

We have made an examination of the balance sheet of THE NATIONAL TOOL COMPANY as at December 31, 1937, and of the statements of profit and loss and surplus of the present Company and its predecessor and subsidiary, for the periods of five months and seven months of the year respectively. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence, and obtained information and explanations from officers and employees of the companies; we have also made a general review of the accounting methods and of the operating and income accounts for the periods mentioned, but we did not make a detailed audit of the transactions.

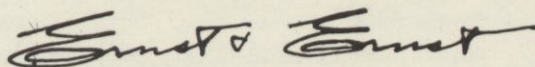
The present Company was incorporated July 20, 1937, in connection with Plan of Reorganization under Section 77B of the Federal Bankruptcy Act of a predecessor company with the same name. As at August 1, 1937, the new company acquired the assets of the old company, subject to its liabilities, for 60,440 shares of new common stock issued or issuable to the holders of preferred and common stock of the old company. The capital stock of the predecessor company, under the Plan, was to be surrendered and canceled and the new shares were to be issued on the basis of ten shares of new common for one share of old preferred and one share of new common for one share of old common.

On March 31, 1937, the predecessor company purchased the remaining 25% interest in the outstanding capital stock of The Simmons Method Hob Company and as at August 1, 1937, the new company acquired the assets, subject to liabilities, of this subsidiary, as consideration for the surrender for cancellation of its entire outstanding stock.

In accordance with Plan of Reorganization, the Company also issued to underwriters under contracts 61,600 shares of common stock at \$2.00 a share and \$200,000.00 principal amount of convertible 6% sinking fund debentures for \$190,000.00.

We have been advised by counsel for the Company that no material liability is anticipated as a result of certain litigation against the Company concerning alleged patent infringements, etc.

In our opinion, based upon our examination, the accompanying balance sheet and related statements of profit and loss and surplus, fairly present the position of the Company at December 31, 1937, and the results of the operations of the Company and its predecessor and subsidiary for the periods of five months and seven months of the year respectively. Further, it is our opinion that the statements have been prepared in accordance with accepted principles of accounting.



Certified Public Accountants